DOCUMENT RESUME

ED 442 337 HE 032 909

TITLE	The Hope & Lifetime Learning Education Tax Credits.
INSTITUTION	Department of Education, Washington, DC. Student Financial Assistance.
PUB DATE	2000-00-00
NOTE	5p.
PUB TYPE	Guides - Non-Classroom (055)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	College Students; *Federal Programs; Financial Aid Applicants; Higher Education; Parent Financial Contribution; *Paying for College; Postsecondary Education; *Student Financial Aid; *Tax Credits; Tax Deductions; Vocational Education

ABSTRACT

This pamphlet describes the Hope and Lifetime Learning Education Tax Credits program for students in college or vocational school. It briefly explains what a tax credit is; who is eligible to claim the credit; the difference between Hope credits and other education tax credits; what costs qualify for the credit; what the inflation-adjusted credit is worth; what the lifetime learning credit is worth; the income limit; the number of students in a family for whom the credit may be claimed; and how to claim the credit. A final "Points to Remember" section provides a quick review of the information. (CH)

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PAYING FOR COLLEGE?

Reduce your taxes by up to $1,500 or more a year!

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2

The HOPE & LIFETIME LEARNING Education Tax Credits

If you're paying for college or vocational school for yourself or your dependents, two tax credits are available for you—

THE HOPE AND THE LIFETIME LEARNING CREDITS

What's a Tax Credit?

A tax *credit* saves you more than a *deduction*. A credit is subtracted directly from your federal income tax on a dollar-for-dollar basis. A deduction is subtracted from your income *before* you calculate your tax, which yields much less than dollar-for-dollar savings.

Who Claims the Credit?

If someone claims the student as a dependent for tax purposes, then that person, not the student, will receive the credit, even if the student files a tax return. Otherwise, the student will receive the credit.

How Are the Credits Different?

You may claim the **Hope credit** for each of the first two *tax* years of college or vocational school for classes that lead to a degree or recognized certificate. A student must be enrolled at least half-time for at least one academic period to qualify for the Hope credit. The **Lifetime Learning credit** is available for *any* higher education, including graduate and professional school, and unlike the Hope credit, you may be enrolled less than half-time. A student is eligible for only one credit each year. For those who qualify for both credits, the Hope credit will usually save more money.

What Costs Qualify?

Qualified expenses for both credits include tuition and required fees, minus any tax-free grants and scholarships. Expenses for books and supplies are not included unless they are paid to the institution as a condition of enrollment or attendance. Room and board, insurance, transportation and medical fees (including health fees) are not qualified expenses, even if they are required for enrollment or attendance.

What the Hope Credit Is Worth

This credit equals 100 percent of the first $1,000 of qualified expenses, plus 50 percent of the second $1,000, for a maximum of $1,500. After 2001, the credit may be adjusted for inflation.

Example: You are enrolled in the first year at a technical school and have an adjusted gross income (AGI) of $20,000. You pay $2,200 in tuition and required fees and receive an $800 tax-free grant, which reduces your qualified expenses to $1,400. You would be eligible for a Hope tax credit of $1,200 (100 percent of the first $1,000 plus 50 percent of $400).

What the Lifetime Learning Credit Is Worth

This credit equals 20 percent of the first $5,000 of qualified expenses, for a maximum of $1,000. After 2002, the credit will be 20 percent of the first $10,000, for a maximum of $2,000. It will not be adjusted for inflation.

Example: You and your spouse file jointly and have an AGI of $70,000. Your child is in her third year at a university, and she receives a tax-free scholarship that reduces her qualified expenses to $4,000. You would be eligible for a Lifetime Learning credit of $800 (20 percent of $4,000).

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Is There an Income Limit?

Yes. Single tax filers with up to $40,000 of AGI and joint tax filers with up to $80,000 of AGI qualify for the full credit. The credits are phased out (gradually reduced) for single filers in the $40,000 to $50,000 range and for joint filers in the $80,000 to $100,000 range. If your AGI is greater, the credits are not available to you. After 2001, the income limits may be adjusted for inflation.

Example: You are a single filer who has an AGI of $45,000 or a joint filer with an AGI of $90,000. In both cases, your tax credit would be reduced by 50 percent, since your AGI exceeds 50 percent of the phase-out range.

A Credit for Each Student

A family with more than one student may claim a Hope credit for each student who qualifies. But a family may claim only one Lifetime Learning credit per year for all the students in the family who do not receive a Hope credit.

Example: You and your spouse have three children, all dependents, enrolled in college. The two younger ones are in their first two years, so *each* qualifies for a Hope tax credit. The oldest child is a senior whose expenses are $3,000. Also, you are in graduate school, and your expenses are $4,000. You and your spouse may claim only one Lifetime Learning credit for your family. This will cover the first $5,000 of the $7,000 you pay for your and your oldest child's education, and will reduce your federal income tax by $1,000 (20 percent of $5,000). This $1,000 adds to the two Hope credits you receive for your younger children.

It's Easy to Claim a Credit!

The school will send the student IRS Form 1098-T, *Tuition Payments Statement*. If this form does not report the qualified expenses, you can call the school to find out how much you paid.

The person claiming a credit must fill out IRS Form 8863 and attach the form to his or her federal tax return. To get the form, call 1-800-829-3676 or download it from the U.S. Treasury Department's Web site at *www.irs.ustreas.gov*. Form 8863 is a worksheet that will help calculate the amount of the Hope or Lifetime Learning credit that may be claimed on the return.

Points to Remember

Married couples must file a joint tax return to be eligible for either credit.

Only one credit may be claimed per student per year.

No credit is allowed if a student has received a tax-free distribution from an Education IRA.

A student who has been convicted of a felony drug offense is not eligible for the Hope credit.

For More Information

- Call the IRS Help Line at 1-800-829-1040.
- Read IRS publication 970, *Tax Benefits for Higher Education*, which you can order by calling 1-800-829-3676.
- Visit the U.S. Treasury Department's Web site at *www.irs.ustreas.gov*.
- Consult your tax advisor.

Student Financial Assistance of the U.S. Department of Education produced this guide.

We invite you to visit our Web site at *www.ed.gov/studentaid* to find out more about financial aid for college and vocational school.

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